CASTLE and COOKE, Limited

annual
report
1948

Castle and Cooke, Limited

HONOLULU, HAWAII

DIRECTORS

J. BALLARD ATHERTON	C. J. HENDERSON
E. E. BLACK	P. K. McLEAN
A. G. BUDGE	GEORGE G. MONTGOMERY
H. K. L. CASTLE	WILHELMINA TENNEY
S. N. CASTLE	HENRY A. WHITE

OFFICERS

A. G. BUDGE . . . . President
H. K. L. CASTLE . . . . Vice-President
C. J. HENDERSON . . . . Vice-President
GEORGE G. MONTGOMERY . . . . Vice-President
W. M. BUSH . . . . Treasurer
MALCOLM MacNAUGHTON . . . . Assistant Treasurer
HOWARD HUBBARD . . . . Assistant Treasurer
L. J. HOUGHTON . . . . Assistant Treasurer
J. C. KELLEY . . . . Assistant Treasurer
FREDERICK SIMPICH, JR. . . . . Secretary
L. F. DEACON . . . . Assistant Secretary
H. M. RICHARDS . . . . Assistant Secretary

AUDITOR

YOUNG, LAMBERTON & PEARSON

STOCK TRANSFER AGENTS

Hawaiian Trust Co., Ltd. . . . . Honolulu
Wells Fargo Bank & Union Trust Co. . . . . San Francisco

REGISTRARS

Bishop Trust Co., Ltd. . . . . Honolulu
American Trust Co. . . . . San Francisco

Report of the President

To the Shareholders of Castle & Cooke, Ltd.

We have frequently said that Castle & Cooke, as a substantial member of the Hawaiian community, must diversify its business interests to aid in spreading risks and providing new ways for Hawaii to earn a living. This need is becoming increasingly evident as our population growth demands more job opportunities. Stagnation in Asia and exchange restrictions in Australia threaten to change the Crossroads of the Pacific into a dead-end street.

In 1948 our efforts to help solve this problem progressed and we made substantial investments in tuna packing, merchandising, and macadamia nuts. We now face a period of painstaking building so that these investments will become productive of jobs and income.

Since Castle & Cooke was established in 1851 this company has been engaged in activities which have been a part of the basic economic life of these islands. As Hawaii has prospered, we have prospered. As Hawaii has suffered, we have suffered.

Our future progress and welfare will necessarily parallel that of the people of Hawaii. Believing that statehood will ultimately benefit all Hawaii, we support it. Similarly, it is our responsibility to help increase business opportunities here so that the community can prosper—and we with it.

INVESTMENTS AND INCOME

Our entry in new ventures in 1948 required an investment of $1,279,623; in addition, we advanced $900,000 against notes. Where we reported $5,362,564 in cash and marketable securities at the close of 1947, the figure at the close of 1948 was down to $3,280,203.

The liquid assets remaining provide an adequate margin for operating purposes.

Profit from all operations during the year was $1,043,330. Dividend payments totaled $784,234. The $209,780 reduction in profit when compared with 1947, is largely attributable to the suspension of Matson dividends and the loss in commissions during the 95-day maritime strike.

A list of our holdings appears on page 9. Copies of annual reports published by these companies will be mailed you as they become available.

NEW ENTERPRISES

Macadamia Nuts . . . Shortly after the end of the war, development of new, high-yielding and high-quality varieties of macadamia trees interested the directors in the possibility of a large-scale venture in macadamia nuts.

Exploration of cultivating and marketing problems and the location of suitable available land consumed much agency time but produced a favorable recommendation. In the summer of 1948, the directors authorized the purchase of 1,000 acres near Hilo, the option on another 3,000 acres, and the development of a macadamia business. It is difficult to gauge the exact financial requirement of such a venture or the return which may be expected until there has been further experience in clearing land and planting and cultivating trees. Indications are, however, that the project will cost well over a million dollars before reaching the break-even point.

For the time being, the macadamia work will be conducted by a division of Castle & Cooke. In 1948, $57,273 was spent on the work. In future years, expenditures will exceed $100,000 annually. No appreciable income from the sale of nuts can be relied upon for eight to ten years.

Hawaiian Tuna Packers . . . This company is the only tuna canner in Hawaii. Well established, with a quality product, it has long been close to our company and is headed by Alan S. Davis, formerly executive vice president of Castle & Cooke, who owns a majority interest. In anticipation of an expanded operation, Mr. Davis offered shares, representing 41% of the total outstanding, to Castle & Cooke. The offer was accepted and the company now has representation on the board of directors. Castle & Cooke does not render a full agency service, but its San Francisco office acts as Tuna Packers' mainland purchasing agent and we frequently assist in company affairs on request of its management.

Hawaiian Tuna Packers, while canning fish caught in local waters, is actively exploring elsewhere in the Pacific for new sources of fish supply for processing in its Kewalo plant. Success in these explorations should have real significance for Hawaii. It also operates a shipyard, an ice plant, an air-conditioning division, and a frozen food sales division.

MERCHANDISE

Our undertaking, several years ago, to sell heavy industrial equipment was prompted by the belief that this field would profit from competition and that the market could be enlarged by aggressive representation of leading equipment manufacturers. We expanded our merchandising activity in 1948 by the purchase of A. F. Stubenberg, Limited, and acquisition by Hawaiian Equipment Company of the agency for the International Harvester truck line.

A. F. Stubenberg, Limited . . . Outright ownership of this well-established business was obtained during the year by exchanging 13,000 shares of Castle & Cooke stock for the 15,000 outstanding Stubenberg shares. Castle & Cooke also loaned the company $500,000 on notes. Under the terms of the purchase, Mr. A. F. Stubenberg has agreed to remain as president and manager of the company for at least five years. Aside from active representation of International Harvester products other than trucks, this concern represents many other lines of industrial and agricultural equipment and fabricates mechanical devices for industrial and plantation use. Its activities complement rather than compete with Hawaiian Equipment Company.

Hawaiian Equipment Company, Ltd. . . . When this company won representation of the International Truck agency it faced a substantial expansion. Construction of a $225,000 building, including display rooms, shops and warehouse, was started on land leased from the Damon Estate at Farrington Highway and Puuloa Road. A branch has been established on Kauai, which will also serve A. F. Stubenberg. On Maui, the Kahului Railroad will represent both the Equipment Company and Stubenberg. On Hawaii, the Stubenberg agency represents the Equipment Company.

Addition of the truck line, the new plant, and establishment of the Kauai branch required an additional $150,000 of capital, which was provided by increasing outstanding common stock. The company also borrowed $400,000 from Castle & Cooke.

Still in its organizational stage, the Equipment Company showed a small loss for the year.

SUGAR

Essentially, the success of the sugar business in Hawaii depends on our ability to continue to produce at or below the costs of mainland growers. So long as we are able to do so, we can join with them to obtain equitable regulation of quotas and consumption estimates which now influence the price of sugar. At present, the Hawaiian quota and the Secretary of Agriculture's estimate of 1949 consumption seem to be reasonable under the circumstances.

The question now is—can our plantations operate profitably under today's conditions and break even in times of price depression? That such price depression is in prospect seems likely, due to the burden on the market of Cuban overproduction and the weakness of other commodity price levels.

We are taking measures which we hope will place the plantations we serve in sound cost positions. All but essential capital expenditures have been eliminated, and operating budgets pared. Intensive work in industrial engineering offers promise of some savings. But costs can be cut only so far if operations are to continue on a long-term basis.

Study is being given to increasing revenues by improved by-product utilization which ultimately may ease this problem.

Ewa . . . Though production increased 10,812 tons over 1947, Ewa lost $142,209. Thus there was a decline in net result, after adjustments for changes in accounting practices, of $220,494 on the 43,135-ton crop. Profits for 1947 were based on a higher return and included over $650,000 of the Commodity Credit Corporation final payments on account of Ewa's 1946 crop. Ewa's 1948 production again reflected loss of sugar as a result of the 1946 strike. The 1949 crop will also suffer, but to a lesser degree.

Replacement of the railroad with a fleet of massive Tournahaulers, capable of carrying up to 30 tons of cane, substantially reduced Ewa's transportation costs in 1948. Experiments in the construction of new housing have provided much valuable information on post-war costs and employe desires.

The plantation is operating smoothly. Given uninterrupted operation it may be expected to resume its place among the leading Hawaiian producers by 1950.

Kohala . . . Declining sugar price and absence of Commodity Credit Corporation payments caused Kohala to lose $130,797 in 1948, as compared with a 1947 profit of $118,660. The loss occurred despite a production increase of 4,603 tons and improvement in cultural practices.

Sugar operations at Kohala present a serious problem as evidenced by an increase in the company's debt to its agents from $253,125 to $933,818 in 1948 alone.

Construction of a new main hauling road will shortly permit a shift of most heavy trucks from the public highway. This will eliminate a long uphill haul and relieve the residents of the district of an annoyance.

Waialua . . . Reorganization of Waialua in December, 1948, produced two companies. One continues the sugar enterprise under the old name; the other holds the bulk of the land and investments and is called Helemano Company, Limited.

By the reorganization, the land and investment assets of the old company were freed from the risks of the sugar business and the sugar earnings will no longer be distorted in the eyes of the public.

No increase in the total agency fee or in executive compensation results from the division. No change in Castle & Cooke's interests was effected, though the assets are now operated by two companies rather than one.

The plantation showed a profit of $197,314 from sugar operations, as compared with $1,750,100 from the same source in 1947. The reduction is attributable to the loss of Commodity Credit Corporation payments and the decline in sugar price.

Celebrating its 50th anniversary in 1948, Waialua performed according to its usual high standards.

PINEAPPLE

Hawaiian Pineapple Company, Limited . . . This company reported net profits for its fiscal year ending May 31st of $2,357,883 as compared with $1,673,090 in 1946-7.

During the year the company acquired, through the exchange of 134,482 shares of its common stock, all of the outstanding stock of Barron-Gray Packing Corporation of San Jose, California. Purchase of this highly regarded fruit packer brings to Hawaiian Pine an appropriate diversification of its interests and a valuable future outlet for pineapple.

There was a sustained demand for Dole products throughout the year. The long existing shortage of supply stimulated a decision to participate in a cannery near Vera Cruz, Mexico, which will process pineapple raised by growers in adjoining areas. Products of the new canning company, known as Dolmex, will be sold under the Dole label by Hawaiian Pineapple Company's sales division. Competitors have long since carried the technique of Hawaiian pineapple production to the Philippines and Mexico.

Expansion by Hawaiian Pine beyond the limited land available in Hawaii is essential if this competition is to be met and the dominant position of the Dole brand is to be maintained.

Agricultural operations in Hawaii have improved, and this development, along with a strong demand and favorable price for the product, should produce a satisfactory financial showing during Hawaiian Pine's current fiscal year.

TRANSPORTATION

Castle & Cooke continued during 1948 to serve Matson Navigation Company as general agent in Hawaii and freight agent for Honolulu. Castle & Cooke Terminals, Ltd., acted as a contract stevedore in Honolulu. Our transportation interests extended inland through our representation of Ewa and Waialua on the board of the Oahu Transport Company. This organization hauls sugar and pineapple to Honolulu and does a general trucking business on Oahu.

The Matson general agency—under which we manage operations of Matson vessels in Hawaiian ports—was, as in the past, unprofitable. On the other hand, representation of Matson, Isthmian, and others as freight agents was satisfactory when allowance is made for the long maritime strike.

Matson Navigation Company . . . Matson had a trying year but one of substantial accomplishment, which should place it on a sound basis for the long term.

An exhaustive examination of freight rates by the Maritime Commission led to increases averaging 10% late in 1948 and tacit government endorsement of its general operation.

Award of the Northwest air route to other applicants underlined the determination of the present administration to prohibit Matson from flying the surface routes it has developed. The fact that it also pioneered Pacific air travel in a joint venture with Pan American is equally ignored. Until there is a change in government policy, ambitions in this direction have been curbed—but Matson is organized to fly when it is permitted to do so. Meanwhile it is cooperating with the airlines in the interest of the community to stimulate further tourist travel.

The popularity of the new Lurline has convinced Matson that much of the development of the Hawaiian tourist business must be built around the traditional allure of the South Sea cruise. The sharp drop in tourist travel which occurred while Matson was strike-bound is evidence that ships are essential to Hawaii's tourist trade. Negotiations are now in progress for the completion of one more "white ship" with the view of increasing passenger sailings to Hawaii and the Antipodes. It seems clear that Matson, as much as any other single Hawaiian concern, has in these new ships the ability to generate greater travel to the Islands. Its part in building our third industry has been great and should be the most substantial single factor in its future development.

The year saw the new freighter service in full-scheduled operation for the first time since before the war.

President John E. Cushing has given substantial attention to Matson's public relations and organization problems during 1948.

The West Coast maritime strike came at a time when Matson had about completed the difficult period of post-war readjustment. It was an expensive, disruptive, and unfortunate affair for Matson, as well as for all Hawaii.

This unnecessary interruption to Hawaiian commerce illustrates the need for statesmanship rather than personalities in labor relations. Matson, aware of the costs to Hawaii of any shipping strike, played a prominent part in the final settlement. It is also among the leaders in a new approach to labor relations in the shipping industry on the Pacific Coast.

Castle & Cooke Terminals, Ltd. . . . This wholly owned subsidiary of the Company had a reasonably profitable year, if the long west coast strike is discounted. Anticipating possible interruptions of this character, the management had set up a reserve to permit it to meet overhead expenses if revenues should be cut off. It was thus possible to continue the strong supervisory organization on the payroll for the 95-day strike. On a long-term basis it is felt that this is a wise policy. A stevedoring firm, like a contractor, can sell only the ability to organize and manage work. Had it been necessary to disrupt the carefully built management structure at the Terminals by lay-offs and discharges, reconstruction would have been a long and costly process.

Early in the year the company negotiated a two-year contract with its stevedore employes, which provided for a 10¢ wage increase, certain language clarification, and a wage re-opening in early 1949. To this time, operations under the new agreement have been satisfactory.

OTHER INTERESTS

Helemano . . . At present, Helemano is a land-owner and investor. It has no employes—all necessary activities being conducted by the agency. However, among the companies in which we are interested, Helemano may be best suited to explore the profit opportunities in improved by-product and land utilization.

Throughout the year the land and investments now held by Helemano showed a profit of $1,011,098 after taxes, which may be compared with the $635,196 non-sugar income of the old Waialua in 1947.

Honolulu Oil Corporation . . . At December 31, 1948, our holdings of this stock had a market value of $2,600,000, exceeded only by our direct and indirect interest in Hawaiian Pineapple Company, Ltd.

GENERAL

Stockholders and Employes . . . As of December 31, 1948, there were 517 shareholders on the Honolulu register and 422 on the mainland. There is a growing interest in our company on the West Coast.

The number of employes of Castle & Cooke, excluding subsidiaries and divisions, remained stable during 1948, there being 161 persons employed at the end of the year.

Vice-President and Director Randolph Sevier resigned on September 1st to become executive vice-president of Matson. In his 18 years with Castle & Cooke he made many major contributions to the company's progress, one of the most important being his development of farsighted labor relations policies on the Honolulu waterfront. His duties as manager of the Steamship Department and president of Castle & Cooke Terminals were assigned to Duncan McBryde.

Labor Relations . . . Emphasis on the development and application of sound labor relations continued throughout the year in all companies. New means of communicating company information and policies to employes, begun in 1947, were continued with success in 1948. By giving employes an understanding of company problems and an opportunity to express themselves on policy, we are stimulating the confidence in management essential to the mutual success of employer and employe.

Negotiations in sugar and on the waterfront resulted in sound contracts. Our policy of treating these agreements as we would any other business commitments has been matched by the general desire of our employes to abide by them.

But much remains to be done before it can be said that our labor relations are on a solid basis. One large area now under examination is the question of benefit plans. Companies associated with Castle & Cooke have been forward-looking in this regard, but the needs of employes, the benefits provided, and the costs entailed, require constant review.

Public Relations . . . Of all of the problems confronting business, the most perplexing is that of telling the public the facts and accomplishments of the profit system. Without the energy of American industry, Hawaii would be as backward today as Fiji and New Caledonia—both far richer and bigger Pacific Islands. And, too, we would have their primitive standards of living.

That Hawaii today is not merely another group of Pacific islands but a progressive, industrious American community is attributable largely to the application of farsighted business enterprise. But business can not relax now and rest on this accomplishment. As a result of Hawaii's growth there are new problems to face such as the increasing population and the unemployment and welfare troubles that portend. Without enterprise and profits, Hawaii would not be able to meet this challenge. As in the past, however, business leadership will join with the rest of the community to see what solutions can be found. But if the understanding and cooperation of all groups are to be obtained, business must come out of its shell and tell its story honestly and with conviction.

No one firm, however devoted it may be to the public interest, can alone win public approval. Castle & Cooke is in business. Businessmen are classed together and judged as a group. Locally and nationally business needs self-analysis, public-spirited leadership, and a thoughtful program to explain its function in providing liberty, opportunity, and a high standard of living.

Respectfully submitted,

President, Castle & Cooke, Limited.

Honolulu, Hawaii,
March 1, 1949.

INVESTMENTS OF CASTLE & COOKE, LIMITED

AS OF DECEMBER 31, 1948

	Outstanding Shares	No. of Shares Held	% of Total Outstanding
Bay & River Navigation Company	3,400	585	17.2
Castle & Cooke Terminals, Limited	37,500	37,500	100.0
Ewa Plantation Company	250,000	51,082	20.4
Hawaiian Equipment Company, Limited	30,000	30,000	100.0
Hawaiian Pineapple Company, Limited	1,469,938	236,485	16.1
Hawaiian Tuna Packers, Limited	110,000	45,490	41.4
Helemano Company, Limited	609,375	150,000	24.6
Home Insurance Company, Limited	50,000	19,208	38.4
Honolulu Oil Corporation	937,743	40,000	4.3
Kohala Sugar Company:			
Common Stock	159,500	139,409	87.4
Preferred Stock	7,000	5,396	77.1
Matson Navigation Company	1,645,643	208,413	12.7
A. F. Stubenberg, Limited	15,000	15,000	100.0
Waialua Agricultural Company, Limited	609,375	150,000	24.6

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31st

	1948		1947	
CURRENT ASSETS:				
Cash	$ 2,230,203		$ 2,212,564	
U. S. Government Securities at Cost	1,050,000		3,150,000	
Accounts and Other Receivables	194,441		1,135,893	
Prepaid and Deferred Charges	21,982		15,834	
		$ 3,496,626		$ 6,514,291
Notes Receivable—Plantations and Subsidiaries		1,900,000		....
		$ 5,396,626		$ 6,514,291
DEDUCT CURRENT LIABILITIES:				
Accounts Payable:				
Trade and Miscellaneous	$ 618,569		$ 619,954	
Shipping Agency	670,130		869,868	
Affiliated Companies	1,145,161		901,792	
Income Taxes	51,749		96,310	
		2,485,609		2,487,924
Net Working Assets		$ 2,911,017		$ 4,026,367
INVESTMENTS AT COST:				
In Subsidiaries Wholly Owned	$ 1,440,000		$ 900,000	
In Other Companies	11,336,624		10,464,100	
		12,776,624		11,364,100
LAND, BUILDINGS AND EQUIPMENT (Less Depreciation)		712,663		666,579
OTHER ASSETS—Notes Receivable		466,073		284,719
TOTAL NET ASSETS IN WHICH CAPITAL WAS INVESTED		**$16,866,377**		**$16,341,765**
SOURCES FROM WHICH ABOVE ASSETS WERE OBTAINED:				
Capital Stock:				
Authorized	$10,000,000		$10,000,000	
Unissued	....		193,000	
	$10,000,000		$ 9,807,000	
Treasury Stock at Cost	114,896	*(3,816 shares)*	95,290	*(2,580 shares)*
	$ 9,885,104		$ 9,711,710	
Premium on Sale of Stock	396,376		304,254	
		$10,281,480		$10,015,964
Accumulated Earnings Retained and Used in the Business		6,584,897		6,325,801
TOTAL CAPITAL INVESTED		**$16,866,377**		**$16,341,765**

COMPARATIVE STATEMENT

OF

OPERATING RESULTS

FOR THE

CALENDAR YEARS 1948 AND 1947

	1948		1947	
INCOME:				
Agency Fees	$1,263,088		$1,379,676	
Dividends	1,161,941		1,286,059	
Interest	53,265		52,681	
Rents	47,450		49,405	
Gains on Investments	84,805		737	
Miscellaneous Net	*16,728**		9,661	
		$2,593,821		$2,778,219
COSTS:				
Operating Expenses	$1,498,742		$1,428,799	
Federal Income Taxes	51,749		96,310	
		1,550,491		1,525,109
NET INCOME FOR YEAR		$1,043,330		$1,253,110
Accumulated Earnings Retained and Used in the Business—Jan. 1st		6,325,801		5,950,677
		$7,369,131		$7,203,787
DEDUCT:				
Dividends Paid		784,234		877,986
ACCUMULATED EARNINGS RETAINED AND USED IN THE BUSINESS—DEC. 31st		**$6,584,897**		**$6,325,801**

* Denotes Loss.

AUDITOR'S CERTIFICATE

To the Stockholders of

Castle & Cooke, Limited:

We have examined the accompanying financial statements of Castle & Cooke, Limited, for the year 1948. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the position of the Company at December 31, 1948, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

YOUNG, LAMBERTON & PEARSON
Certified Public Accountants

Honolulu, T. H.
March 7, 1949.